

Living on Commitments

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# Budget 2005



## Overview

February 23, 2005

Canada

### An Ambitious Agenda

The Government of Canada has presented an ambitious agenda and a clear commitment to Canadians in the following areas:

- 1 Maintaining sound financial management
- 2 Securing our social foundations
- 3 Achieving a productive and growing economy
- 4 Moving towards a green economy and sustainable communities
- 5 Meeting our global responsibilities

In Budget 2005, the Government is delivering on all of these commitments

#### 1 Maintaining Sound Financial Management

##### *Economic Outlook*

Robust consumer spending, fuelled by low interest rates and stable inflation, led to solid economic growth in the first three quarters of 2004. This, in turn, helped boost employment levels and wages in Canada. Indeed, the Canadian economy created 255,000 full-time jobs in 2004.

Private sector economic forecasters surveyed by the Department of Finance predict that Canada's economy will grow by 2.9 per cent in 2005, rising to 3.1 per cent in 2006.

However, Canada's economy faces a number of challenges:

- The continued rise of the Canadian dollar against the U.S. dollar is already affecting our export industries.
- The growing American budget deficit could lead to higher U.S. interest rates, which could dampen consumer and business spending in Canada's largest trading partner.

##### *Fiscal Prospects*

Since balancing the budget in 1997-98, the Government of Canada has recorded seven consecutive budget surpluses.

Budget 2005 delivers on the Government's commitment to keeping its books balanced and Canada's debt on a permanent downward track. Specifically:

- It predicts balanced budgets or better in 2004-05 and in each of the next five fiscal years.
- Canada's debt-to-GDP (gross domestic product) ratio is expected to decline to 38.8 per cent in 2004-05, down from 68.4 per cent in 1995-96.
- The Government remains committed to reducing Canada's debt-to-GDP ratio to 25 per cent by 2014-15.

### *Expenditure Review*

Budget 2005 incorporates the nearly \$11 billion in savings identified by the Government's Expenditure Review Committee.

- Nearly \$9.8 billion of these savings—or 89 per cent—will come from improved efficiencies in government-wide activities such as purchasing, property management and service delivery, and in the operations of individual departments.
- Efficiency savings in the employment insurance program and the operations of the Canada Pension Plan will be reallocated directly back into these programs.
- All other savings will be reallocated to the Government's highest priorities.

#### 2 Securing Our Social Foundations

Recent Government of Canada commitments of over \$75 billion in support of the 10-Year Plan to Strengthen Health Care and the new framework for Equalization and Territorial Formula Financing will provide provinces and territories with predictable and growing long-term support for the provision of health care and social services.

Budget 2005 takes further action to secure Canada's social foundations through a variety of measures.

### *Health Care*

Budget 2005 provides \$805 million over five years in direct federal health investments, including:

- \$300 million over five years for an integrated strategy to encourage healthy living and prevent and control chronic diseases.
- \$200 million to support health human resources and improve wait times and health performance information.
- \$170 million over five years to implement measures to enhance the safety and effectiveness of drugs and other therapeutic products.

### *Investing in People*

The Government of Canada aims to ensure that all individuals have the chance to succeed, achieve their potential and participate fully in the promise of Canadian society. Budget 2005 supports these goals through a number of initiatives, including:

- A commitment of \$5 billion for a new Early Learning and Child Care initiative.
- Enhanced tax relief for people with disabilities and their caregivers.
- Increasing Guaranteed Income Supplement benefits for low-income seniors by \$2.7 billion over five years.
- \$735 million in new funding to strengthen Aboriginal communities, with a focus on children, youth and their families.
- \$398 million for immigration settlement programs and client services.



### 3 Achieving a Productive and Growing Economy

Budget 2005 proposes measures aimed at building on Canada's economic strengths and ensuring that our economy remains globally competitive.

Budget 2005 proposes the following tax reductions:

- Increase the amount of income that all Canadians can earn tax-free to \$10,000.
- Increase contribution limits for registered retirement savings plans and registered pension plans to \$22,000.
- Eliminate the corporate surtax and cut the general corporate income tax rate to 19 from 21 per cent to maintain Canada's business tax advantage over the U.S.

Budget 2005 also commits the Government to:

- Eliminate the 30-per-cent foreign property limit on pension investments, effective immediately.
- Increase deposit insurance coverage to \$100,000.
- Launch a review of legislation governing Canada's financial institutions to improve consumer protection and promote greater efficiency.

### 4 Moving Towards a Green Economy and Sustainable Communities

#### A Green Economy

Budget 2005 delivers on the Government's commitment to address climate change and protect our natural environment by investing:

- \$1 billion over five years to encourage cost-effective initiatives that will reduce greenhouse gas emissions in Canada under a new Clean Fund.
- \$225 million over five years to quadruple the number of homes retrofitted under the EnerGuide for Houses Retrofit Incentive program.
- \$300 million over five years in production incentives for wind power and other renewable sources of energy.
- Almost \$900 million over five years to protect our natural environment, including the Great Lakes, Canada's oceans and national parks.

In addition, the budget includes tax incentives to encourage greater investment in and reliance on renewable energy sources.

#### Delivering a New Deal for Communities

Budget 2005 implements the Government's commitment to share \$5 billion in federal gas tax revenues with communities across Canada over the next five years for investments in sustainable infrastructure.

For 2005–06, communities will receive approximately \$600 million. This annual amount will increase to \$2 billion in 2009–10.

As well, the Government has committed to renewing existing infrastructure programs as required.

The Government will also provide an additional \$300 million for the Green Municipal Funds in support of projects that deliver cleaner air, water and soil, as well as climate protection, to Canada's communities. Half of these funds will be dedicated to brownfield remediation.

### 5 Meeting Our Global Responsibilities

Budget 2005 includes a wide range of initiatives, including:

- \$425 million to support the immediate humanitarian response to the Asian tsunami disaster and long-term reconstruction.
- Boosting international assistance by \$3.4 billion over the next five years with the goal of doubling assistance from 2001–02 levels by 2010–11.
- \$1 billion to further strengthen Canada's national security.

#### Defence

Last October, the Government pledged to increase the size of Canada's Armed Forces by 5,000 permanent members, along with 3,000 additional reservists.

Budget 2005 delivers on this commitment while providing funding that goes far beyond it: \$12.8 billion over five years (on a cash basis), the largest increase in defence spending in 20 years.

This increased funding will be used to improve training and address the Forces' operational readiness.

The additional funding will also be used to purchase new medium-capacity helicopters, trucks, utility aircraft and specialized facilities for Canada's elite anti-terrorist troops.

### How Can I Get More Information on Budget 2005?

Information is available on the Internet at [www.fin.gc.ca](http://www.fin.gc.ca) or by phoning:

1 800 O-Canada (1 800 622-6232)  
1 800 465-7735 (TTY for the speech and hearing impaired)

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